

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Telephone Number Portability  
Tariff Filings of

) CC Docket No. 99-35

Ameritech Operating Companies

) Transmittal Nos. 1186, 1187

GTE System Telephone Companies

) Transmittal No. 271

GTE Telephone Operating Companies

) Transmittal No. 1190

Pacific Bell

) Transmittal No. 2029

Southwestern Bell Telephone Company

) Transmittal No. 2745

**AMERITECH'S REBUTTAL**

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**AMERITECH'S REBUTTAL**

**I. INTRODUCTION**

Ameritech files this Rebuttal addressing issues raised in the Oppositions to Ameritech's Direct Case filed March 29, 1999. None of the issues raised in the Oppositions merits any modification to Ameritech's Local Number Portability ("LNP") Tariff, and that tariff should be permitted to remain in effect, as filed.

Two parties attack Ameritech's tariff by alleging that it double recovers SS7-related investment costs. This attack is groundless. The cost models used by Ameritech calculate long-run incremental SS7 investment based upon the anticipated incremental investment necessary to provide the increased SS7 capacity which would not be required

“but for” the deployment of LNP. These costs are the long-run incremental costs of processing additional queries caused by LNP over the 5-year recovery period mandated by the Bureau and are not, and will not be, recovered in rates for non-LNP services. Thus, they cannot be said to represent “embedded” costs, and there simply is no issue of double-recovery.

Equally groundless are opponent’s claims that the Operations Support System (“OSS”) costs reflected in Ameritech’s LNP Tariff are not appropriate for recovery. Contrary to the unsupported statements of these parties, all the OSS modifications detailed in Ameritech’s Direct Case were necessary for “the provision of” LNP. Moreover, all of these modifications except one support no services other than LNP, and in all cases the resulting costs would not have been incurred “but for” LNP implementation. Indeed, from both the legal and operations perspectives, the provision of LNP would have been impossible without these modifications. Moreover, the LNP tariff of Bell Atlantic that was recently permitted to go into effect without a Designation Order recovers costs for OSS modifications nearly identical to those included in Ameritech’s filing. Hence, the resulting costs are likewise properly recoverable in Ameritech’s LNP tariff.

Opponents alleging that Ameritech’s tariff seeks double-recovery of land, buildings and maintenance costs resulting from LNP implementations are also mistaken. These costs were developed using an appropriate forward-looking incremental methodology, and are both reasonable and appropriate for recovery under existing precedent. No double-recovery will occur.

Also baseless are the contentions of several parties who argue that the separations treatment of Ameritech's LNP costs provides for double-recovery of those costs (i.e., in both the state and federal jurisdictions). As described below, Ameritech has not recovered any LNP-related costs in state or federal rates. Moreover, in the future, costs recovered through the federal LNP mechanism will be excluded from the separations process.

Contrary to opponents' assertions, Ameritech's assessment of the LNP Monthly Charge against commercial mobile radio service ("CMRS") providers purchasing "Type 1" direct inward/outward dial ("DID/DOD") trunks is reasonable and appropriate. Both CMRS providers and their end-user customers benefit from LNP implementation in several ways, and should bear these charges along with all other users of LNP-related offerings, such as DID.

## **II. SS7 COSTS**

### **A. Ameritech's SS7 Cost Models Properly Calculate New Investment Caused by LNP. There Is No Recovery Of Embedded Costs.**

AT&T and Ad Hoc Telecommunications Users Group ("Ad Hoc") paint the controversy over SS7 investment as an attack by the incumbent LECs on the "incremental costing methodology adopted by the Commission."<sup>1</sup> Nothing could be further from the truth. The issue addressed in Ameritech's Direct Case was not the validity of the Bureau's Orders, but rather how to correctly implement the incremental costing principles adopted in them. To that end, Ameritech provided extensive economic

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<sup>1</sup> AT&T at 12; Ad Hoc at 26.

analysis and argument demonstrating beyond doubt that a long-run incremental cost methodology is the correct policy choice. It also showed how the SS7 cost models employed by Ameritech correctly apply that methodology through the use of the generally-accepted Total Service Long-Run Incremental Cost ("TSLRIC") or the Commission's analogous Total Element Long-Run Incremental Cost ("TELRIC") methodologies.

In support of its Direct Case, Ameritech filed a White Paper<sup>2</sup> and is filing Rebuttal Comments (at Appendix A)<sup>3</sup> with its Rebuttal. The papers were prepared by Dr. Debra Aron, a noted economist and expert on economic cost analysis and demonstrate that the use of a short-run approach is flawed because it ignores significant SS7-related investment in fact caused by LNP during the recovery period. Dr. Aron further shows that long-run cost analysis of the type used by Ameritech has been and continues to be the accepted methodology, at both the state and federal levels, and provides the most accurate estimate of SS7-related LNP investment.<sup>4</sup> It is these compelling economic and policy reasons that should guide Commission LNP cost-recovery policy.

The Oppositions of AT&T and Ad Hoc ignore what is correct and consistent with prevailing Commission policy, instead advancing novel, legalistic interpretations of the Bureau's Orders as a justification for their unprecedented and self-serving proposals. In fact, Ad Hoc admits that the TELRIC or TSLRIC definition of incremental (long-run

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<sup>2</sup> Proper Recovery of Incremental Signaling System 7 (SS7) Costs for Local Number Portability, Appendix A ("White Paper").

<sup>3</sup> Proper Recovery of Incremental Signaling System 7 (SS7) Costs for Local Number Portability - - Rebuttal Comments, attached hereto as Appendix A. ("Rebuttal Comments").

forward-looking costs) is “exactly what the term ‘incremental’ means.”<sup>5</sup> In addition, AT&T’s position advocating recovery of short-run costs is directly contrary to the positions which AT&T has itself consistently advocated in state proceedings.<sup>6</sup> Yet, both AT&T and Ad Hoc twist the Commission’s prevailing definition of “incremental,” improperly claiming it is limited to recovery of only short-run costs. The Commission should reject these efforts to distort its rulings and instead recognize -- as has always been the case -- that “incremental” means forward-looking long-run incremental costs, so that no direct costs of LNP are ignored.

AT&T (at 17) candidly admits that “the Commission’s rules do not require ILECs simply to absorb the costs of LNP implementation.” AT&T further concedes that the Commission requires incumbent LECs “to estimate the new incremental costs they incur to implement portability and are allowed to recover those costs ... .” By definition, long-run incremental costs are “new” costs because they would not have been incurred “but for” the deployment of LNP. Thus, Ameritech’s LNP Tariff does exactly what AT&T claims incumbent LECs are entitled to do -- estimates the new SS7 investment caused by LNP, and recovers it through the LNP rates.

The sections of the Bureau’s Orders cited by AT&T and Ad Hoc as support for their position that incumbent LECs may recover only short-run, “new” incremental costs fail to support their narrow interpretation. Neither party cites even one instance where either the Bureau or the Commission specified that incumbent LECs may recover only

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<sup>4</sup> White Paper at 9-10.

<sup>5</sup> Ad Hoc at 5.

<sup>6</sup> Rebuttal Comments at 1-4.

short-run costs. Instead, they take the unprecedented position that incremental or “new” costs equate to a short-run cost analysis.<sup>7</sup> Yet, as discussed, both parties know that established practice before the Commission and at the state level is that incremental by definition requires the use of a long-run cost methodology.

Ameritech will not repeat for a third time<sup>8</sup> its interpretations of the Commission’s and Bureau’s Orders and why the use of long-run costs is authorized, is internally consistent with the Bureau’s and Commission’s Orders and Rules, is consistent with existing practice and policy, and is required by the Telecommunications Act of 1996. As demonstrated in Ameritech’s Direct Case and in the White Paper and Rebuttal Comments by Dr. Aron, such an approach is grounded in sound economic principles and is a good policy choice. Suffice it to say that incumbent LECs should be allowed to recover all incremental costs that meet the Bureau’s “but for” and “for the provision of” tests, not just some of those costs.

**B. The Vast Majority of LNP SS7-related Investment Varies by Demand, and the Balance is Still a Forward-Looking Investment Cost of LNP.**

AT&T candidly admits (at 13) that “[i]f all investments and costs varied directly with the number of octets processed, Ameritech’s approach would potentially provide an adequate estimate of the incremental impact of the additional SS7 messages generated by LNP.” As demonstrated by Dr. Aron in the her Rebuttal Comments,<sup>9</sup> that is exactly the case; in the long-run each octet contributes equally to the exhaustion of capacity. When

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<sup>7</sup> Ad Hoc at 3-4.

<sup>8</sup> See, e.g., Direct Case at 11, 14-16, 19.

<sup>9</sup> Rebuttal Comments at 5-10.



properly viewed, all capacity costs, including those that are fixed, vary in the long-run when the two conditions specified by Dr. Aron are met. In this case, almost 90% of the LNP SS7-related investment found by Ameritech in its manual cost study satisfy these conditions and vary with octet volume. Thus, AT&T's short sighted approach as applied to the vast majority of SS7-related LNP investment is just a pretext for ignoring legitimate incremental costs of LNP.

Moreover, on any given day, one octet of usage on the SS7 network is exactly like all other octets. They all use the same shared equipment and facilities and, thus, contribute equally to the eventual exhaust of the SS7 network facilities and equipment. Under these circumstances, it is intuitively and economically correct that, since each octet uses the same capacity, the forward-looking, long-run incremental costs of each octet are the same. It should not and cannot matter when the service that generates the octet was added to the network, or what specific new construction was required to support that service in the short-run.

AT&T's position is based upon the incorrect premise that fixed joint investments made prior to implementation of LNP are embedded costs. As Dr. Aron demonstrates (at 6-7) in her Rebuttal Comments, AT&T confuses fixed costs with the concept of embedded costs. The two types of costs are distinct and independent of each other. Costs can be fixed, but not embedded. That is to say, a cost can be fixed (not variable based upon output) yet still be one that is forward-looking in the sense that it will be incurred in the future and is not a sunk cost. AT&T's position is a house of cards that is entirely without merit. Even if AT&T had established that substantial LNP SS7-related investments are fixed, (which it did not), it does not follow that these costs are embedded.

In fact, the opposite is true - - most of these costs are variable and all are forward-looking, not embedded, and, thus, properly recoverable through the federal mechanism.

**C. Ameritech's Manual Cost Study Correctly Identified The Actual Incremental SS7 Investment Cost Caused By LNP During The Recovery Period.**

AT&T and Ad Hoc next attack the manual cost study provided by Ameritech as Appendix B of its Direct Case in response to paragraph 19 of the Designation Order. Ad Hoc objects that the Ameritech study used a long-run incremental, rather than a short-run incremental methodology, and that it allegedly does not calculate Ameritech's "actual" costs.<sup>10</sup> This objection is based solely on a flawed interpretation of the Bureau's Orders and must be rejected for that reason.

AT&T is somewhat more specific, complaining that Ameritech "calculated its total SS7 costs and then divided those costs by the total number of octets transmitted on that system to determine its purported investment per octet. This investment per octet was then multiplied by the total number of octets Ameritech claims are required for LNP over the five year recovery period in order to calculate its claimed LNP investments."<sup>11</sup>

AT&T's description of Ameritech's methodology is incorrect. An investment per octet was in fact calculated, but that calculation was based on forward-looking, not embedded investment. For that reason, the concern about the study including embedded costs is groundless. What Ameritech did was to properly determine the forward-looking

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<sup>10</sup> Ad Hoc at 30-31.

<sup>11</sup> AT&T at 13.

incremental investment of carrying traffic on the SS7 network over the next five years on a per unit of traffic basis, and then allocate that investment to LNP based on its pro rata share of those costs based upon the capacity it used. Ameritech did not consider embedded investment, nor did it use a short-run cost approach, as advocated by AT&T and Ad Hoc, that would ignore significant actual SS-7 related investment caused by LNP traffic received during the recovery period.

As demonstrated by Dr. Aron in her White Paper, Ameritech's manual cost study, like the cost models Ameritech used, properly reflects "actual" or "new" SS7 investment caused by LNP based upon a look at the SS7 network with and without the traffic caused by LNP.<sup>12</sup> Ameritech's cost study properly looks at those costs on a long-run forward-looking basis based upon capacity utilization. AT&T is thus again wrong when it asserts that Ameritech did not perform incremental cost calculations or address the Bureau's core concern. Nowhere did the Bureau dictate that the LECs' cost studies must ignore significant SS7 investments that meet both the "but for" and "for the provision of" tests simply because they are long-run, rather than short-run costs. No reasonable reading of the Bureau's requirements mandates such an absurd result.

**D. Incumbent LECs Are Not Limited To Recovery Of Marginal SS7 Investment But May Recover All the Incremental SS7 Investment Caused By LNP.**

AT&T next argues that the Bureau precluded the use of an "average" incremental methodology in favor of a "marginal" cost calculation.<sup>13</sup> However, the Bureau's language cited by AT&T does not support its contention. Rather, all the Designation

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<sup>12</sup> White Paper at 23-25.

Order does is agree with AT&T that incumbent LECs can recover “only new costs . . . as eligible LNP costs” and that “investments made by an incumbent LEC prior to LNP implementation cannot be considered direct costs incurred to provide number portability.”<sup>14</sup> AT&T reads far too much into this statement. What the Bureau required is that incumbent LECs recover their forward-looking incremental investment caused by LNP. In this regard, it must be remembered that by definition incremental investment is “new” (whether it is short-run or long-run) since it would not have been incurred “but for” LNP. The Bureau did not rule that incremental investment must be limited to marginal investment. Rather, as is made clear throughout the cited paragraph, the Bureau’s intention was to preclude the recovery of “embedded” investment.

Dr. Aron explains the correct use of an average and marginal cost analysis. She explains that in this context, from an economic perspective, the average cost calculation of the SCIS/CCSCIS model must be used here in order to identify all the incremental costs caused by LNP. As Dr. Aron demonstrates the mathematical assumptions underlying the marginal investment calculation in the SCIS/CCSCIS models are “unrealistic in this case”. Thus, the “average calculation is a more accurate estimate of incremental cost under the technological conditions applicable here”. AT&T does not even attempt to refute Dr. Aron’s analysis because it cannot.<sup>15</sup>

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<sup>13</sup> Id. at 14-16.

<sup>14</sup> Designation Order, para. 20.

<sup>15</sup> See White Paper at 21-23 and Rebuttal Comments at 12.

Even AT&T (at 16) concedes that “average cost approaches” are “potentially reasonable” when the “prices of all the goods and services that utilize the inputs in question are taken into account.” This is precisely the point: an average approach is required here because it considers all inputs that use the shared SS7 resource and properly assigns to each its non-discriminatory pro rata share of the costs of that capacity which it uses.

AT&T frets (at 17-18) that an average incremental cost approach will mean that when a new service is added, all the services that utilize SS7 signaling should become proportionally less costly on a per unit basis. AT&T claims that incumbent LECs continue to charge the same amount per octet for non-LNP services, “that fully recovers their embedded cost for SS7 – while also charging Y per octet for LNP, an amount that included embedded costs as well.”

AT&T’s concerns are groundless. Ameritech’s investment per octet is not now and never has been based upon embedded costs. The cost models used to calculate SS7 investments are forward-looking and do not calculate embedded investments. As such, the models are self-correcting and re-calculate per unit investment on a forward-looking basis each time a new study is performed.

Moreover, as Dr. Aron explains, AT&T’s claim that per-unit costs should go down as more services are added is simply incorrect. What AT&T ignores is that in the long run the addition of new services usually requires the addition of more capacity. Thus, AT&T’s simplistic argument, to the effect that capacity costs are fixed costs that are spread over a larger base, is simply wrong. The important point is that incremental

per unit costs do vary over the long-run based upon demand and should apply on a forward-looking basis to all services that use the SS7 network. Tellingly, as discussed by Dr. Aron, AT&T probably does not price its own services based upon the short-run principles it advocates in this case, because such principles would produce absurd results that no company would implement in its marketing plans.<sup>16</sup>

Moreover, the cost of non-LNP services are not relevant to this proceeding. What is at issue here, and what incumbent LECs are entitled to recover, are the incremental costs of LNP. The costs and rates of non-LNP services have no effect on that issue. If a cost is an incremental cost of LNP, it is recoverable regardless of the rates or costs of non-LNP services.

AT&T further confuses costing with pricing. Today, costs are not the same as rates. Rather, rates are set above price floors based upon a host of factors relating to market conditions, supply and demand, public policy considerations such as universal service, etc. Thus, even if a relevant price floor were to change, that does not mean that the corresponding rate should or will change. It must be remembered that the LNP Monthly Charge will not be assessed retroactively, but will rather apply into the future. As such, what counts is what are the incremental costs of LNP during the recovery period. Even if it turns out that other non-LNP services' costs decreased during the same period, (which has not been proven by AT&T) that does not justify reducing the costs assigned to LNP. Rather, the correct approach is to adjust the price floors on a forward-

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<sup>16</sup> Id. at 11-12.

looking basis for the non-LNP services, although it should be recognized that adjustments may not result in reduced rates.

Thus, Ameritech did exactly what it was instructed to do and manually calculated its forward-looking incremental SS7 investment caused by LNP using an average capacity costing, long-run methodology. Under that methodology, the study does not reflect any embedded investments. Since each service only pays for the forward-looking costs of the capacity it uses, there is no double-recovery or recovery of embedded costs. Equally as important, LNP is not subsidized by other non-LNP services in a manner that may violate the Commission's own competitive-neutrality requirements.

**E. Ameritech's LNP Rates Do Not Recover Embedded Costs, But Rather Forward-Looking Costs Based Upon the Capacity Used. No Double Recovery Will Occur.**

AT&T (at 17) next wrongly asserts that Ameritech's position "presumes that its current rates only allow it to recover for some fraction of its fixed/joint SS7 costs ... ." Ameritech makes no such assumption. In fact, AT&T's position demonstrates a fundamental misunderstanding or misrepresentation of how the cost models employed by Ameritech operate and what costs they calculate. At any given time, the models allocate the then forward-looking, not embedded investment, of SS7 among the services that use the SS7 network, based upon how much relative capacity each service uses.<sup>17</sup> Thus,

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<sup>17</sup> The fact that the models properly calculate incremental investment pursuant to the TSLRIC methodology was demonstrated by Ameritech in its Direct Case, and by Dr. Aron in her White Paper. Further, Southwestern Bell Telephone Company (SBC) and Pacific Bell ("PacTel") filed Attachments D and E to their Direct Cases a paper and an affidavit by Telcordia Telecommunications) establishing beyond a doubt that the models properly capture the SS7-related investment economic costs of LNP using a long-run

during the recovery period, there will be no double-recovery since each service will only have allocated to it forward-looking costs based upon the capacity it uses. In most cases, those costs will be less than actual embedded costs, because the forward-looking methodology assumes an optimal network configuration using the most efficient available technology. No embedded network can ever approach that standard.

**F. Ameritech's SS7 Costs Only Reflect Investment Applicable To LNP Traffic Processed During The Recovery Period.**

AT&T next complains that Ameritech ignored the Bureau's finding that incumbent LECs may not use "'annuities' to capture ongoing costs of providing LNP beyond the five-year recovery period ... ."<sup>18</sup> Once again, AT&T either ignores or misses the point. Ameritech is not seeking to recover an annuity for all costs that it will ever incur as a result of LNP. Although it believes that it is entitled to recover all those costs, Ameritech only seeks in its Direct Case recovery of the SS7 investment costs applicable to LNP traffic received during the recovery period. However, it does properly seek recovery of all the investment costs required to support that traffic, not just the short-term investment made during an arbitrarily short period of time. Nothing in the LNP Cost Recovery Order precludes Ameritech from doing so, and such an approach is consistent with the requirements of the Telecommunications Act of 1996, the Commission's own policies and sound economic principles.

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incremental methodology. Ameritech has reviewed these attachments, fully concurs in them, and believes that they apply equally to the versions of the Telcordia models used by it.

<sup>18</sup> AT&T at 16, citing to paragraph 15 of the LNP Cost Recovery Order.



AT&T's position misreads paragraph 15 of the Bureau's Cost Classification Order,<sup>19</sup> and ignores the context of the decision. As the Bureau notes, Ameritech stated that "it plans to include as a LNP cost the present value of expenses related to LNP during the recovery period and continuing perpetually." The Bureau rejected that proposal. Consistent with the Bureau's requirements, Ameritech did not seek to recover LNP incremental costs in perpetuity. Rather, it simply seeks to recover the SS7-related LNP investment costs it will incur during the recovery period based upon a long-run cost approach. At no point did the Bureau preclude, or rule on, such a proposal in paragraph 15 of the Cost Classification Order.

The five-year recovery period makes it all the more important that incumbent LECs be able to utilize a long-run methodology, so that they are able to recover all the investment costs actually caused by LNP during that period, since there will not be an opportunity to recover them at a later date. To do less would improperly deny recovery of costs that are caused by LNP during the recovery period simply because they are paid after the end of the period. Such an approach is not only inconsistent with generally accepted accrual accounting principles, but is also contrary to incremental cost methodologies and economic principles, and must be rejected.

### **III. OSS COSTS**

AT&T (at 4-9 and Exhibit 3) and Ad Hoc (at 7-14) both attack Ameritech's statement of OSS-related costs included in its LNP rates. As explained in detail in both

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<sup>19</sup> Memorandum Opinion and Order released December 14, 1998 (Cost-Classification Order). Telephone

Ameritech's Direct Case and its Petition for Clarification, all OSS modifications for which Ameritech seeks LNP cost recovery were made solely to support the provision of LNP and would not have been made "but for" LNP. None of these modifications (with the exception of one, as noted)<sup>20</sup> supports any other product or service. This fact directly refutes Ad Hoc's claim that "these modifications and upgrades also provide a wide range of services and features unrelated to the provision of number portability and are recoverable by LECs in their rates for other services."<sup>21</sup> To the contrary, these costs would not have been incurred "but for" the deployment of LNP.

These costs make possible access to required functions such as pre-ordering, ordering, provisioning, repair and maintenance, and billing of LNP that are essential to the provision of LNP and are an integral part of it. Without these modifications, none of these required critical functions could be performed for LNP; thus, the service simply could not be provided.

AT&T's position that recovery of these costs should be prohibited fails to recognize that LNP could not possibly be provided at all unless these OSS-related costs were incurred. AT&T's position also ignores the fact that the Commission has held that access to OSS functions is a condition of BOC long distance entry, and has also held that access to OSS functions is an integral part of "the provision of" LNP.<sup>22</sup>

The Commission's previous finding that OSS access is an integral part of the provisions of LNP comports with the operational realities of LNP implementation.

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Number Portability Cost Classification Proceeding, CC Docket No. 95-116, RM 85345

<sup>20</sup> Direct Case, at 21-24.

<sup>21</sup> Ad Hoc, at 6.

<sup>22</sup> Direct Case, at 24.

Current industry projections of expected LNP query volumes are so high as to rule out the use of manual support processes to provide LNP.<sup>23</sup> In light of the high expected demand levels, these OSS-related modifications were required to enable Ameritech to meet the NANC requirements for provisioning LNP.<sup>24</sup> From an operational standpoint, LNP could not reasonably be provided without them. Hence, it is obvious that, from both operational and legal perspectives, LNP simply could not be provided unless effective access to these essential OSS functions is provided. Thus, it cannot be credibly argued that these modifications do not meet the “but for” and “for the provision of” tests for LNP cost recovery.

It is also noteworthy that the OSS-related LNP costs included in Ameritech’s cost recovery calculations are essentially identical to those included in Bell Atlantic’s LNP tariffs, which were permitted to go into effect without a Designation Order on March 17, 1999.<sup>25</sup> Since those OSS-related LNP costs are considered appropriate by the Bureau for inclusion in one ILEC’s LNP tariffs, it is clear that AT&T’s and Ad Hoc’s interpretation of the Bureau’s Orders are mistaken.

#### **IV. LAND, BUILDINGS AND MAINTENANCE**

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<sup>23</sup> See, e.g., Illinois Commerce Commission’s Number Portability Center and System Request For Proposal, February 6, 1996 (at 7), which specifies that the system “will be capable of handling the following transaction rates. Year 1: 25,000 to 70,000; ...; Year 5: 500,000 to 1,000,000.” This document also specifies that “(f)rom the time an activation notice is received from the new service provider to broadcast out an update until the time the update is broadcasted to all service providers will be < 60 seconds.”

<sup>24</sup> See, e.g., North American Numbering Council, Local Number Portability Administration Selection Working Group Report, App. D (Architecture & Administrative Plan for Local Number Portability (April 25, 1997), adopted In re Telephone Number Portability, Second Report and Order, 12 FCC Rcd. 1228 (1997) at 12283.

<sup>25</sup> In the Matter of Local Telephone Number Portability Tariff Filings of Bell Atlantic and NYNEX Telephone Companies, CC Docket No. 99-35, Transmittal Nos. 1111, 539 (released March 16, 1999).

Contrary to AT&T's assertions, Ameritech does not seek to "double recover" costs associated with land, buildings and maintenance. At page 23, AT&T raises several irrelevant or poorly-articulated issues related to the methodology used to calculate "claimed costs associated (with) land, buildings, administration and maintenance". First, as stated in Ameritech's Direct Case (at 28), Ameritech did not include any costs associated with land investment for LNP. Second, although AT&T refers to "claimed cost" for administration, it does not seem to have specific issues related to this item, because none are mentioned.

As to buildings and maintenance, AT&T incorrectly states (at 23) that "Ameritech's use of average cost models for these expenses overstates its incremental investments associated with LNP". In fact, Ameritech did not calculate these expenses using "average cost models". As stated in its Direct Case (at 28), Ameritech's buildings (or "floorspace") investment related to LNP was developed in all but two cases by multiplying LNP incremental capital investments for central office equipment and call centers by a percentage loading in order to determine the amount of floorspace investment required to support the aforementioned capital investments. Common sense dictates that if you are developing the incremental costs associated with capital investments for equipment that is housed in (e.g.) a central office then the incremental building investment needed to support that equipment is also appropriate for cost recovery. The "free ride" mentality of AT&T is illogical, and nothing more than a subtle request for a hidden subsidy.

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As stated above, AT&T (at 23) raises an issue regarding the calculation of maintenance expenses using "average cost models". Later in that same paragraph, AT&T states that "it is reasonable to assume that Ameritech will incur some incremental maintenance expenses associated with LNP" (at 23) and further states Ameritech's method of estimating these maintenance seems reasonable. Thus, AT&T claims this method should only be applied to incremental investments; that is exactly what Ameritech has done.

## **V. SEPARATIONS ISSUES**

As to Ameritech's LNP costs, AT&T claims (at 34) that "Ameritech should make the appropriate accounting adjustments to remove these charges and any associated revenues from their intrastate investments and expenses." Similarly, Ad Hoc states (at 37): "(y)et Ameritech has not provided sufficient information to demonstrate that there will be no double recovery. For example, Ameritech does not address the possibility that local number portability revenues may be less than local number portability expenses.

These allegations are wrong, for several reasons. First, as previously stated in Ameritech's response to the Bureau's LNP Designation Order,<sup>26</sup> beginning on February 1, 1999, Ameritech effectively removed the LNP costs prior to the separations process. Before that date, Ameritech did not recover 1997 and 1998 LNP costs in any rates (either intrastate or interstate). In the Ameritech region, all intrastate cost studies are based on forward-looking costs. Rates are subsequently developed from those costs in accordance

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<sup>26</sup> Direct Case, at Section E, p.28.

with price cap rules or price regulation rules within each state. In no case does Ameritech use interstate costs to develop its state rates.

Moreover, each state in the Ameritech region has a regulatory structure that has moved from rate base regulation to incentive regulation. As stated in Ameritech's Direct Case, each state in the geographic region served by the Ameritech operating companies has implemented a state price cap plan, with the sole exception of Michigan (which has in place a state price regulation plan). Under this region-wide system of alternative regulation, Ameritech has not made any changes to state rates for the recovery of LNP since it began incurring LNP-related costs in 1997. Thus, no state rate or price floor reflects any separated costs of LNP.

Likewise, Ameritech is regulated under federal price caps in all jurisdictions served by its operating companies. Thus, the charges for each category and rate element are developed utilizing forward-looking costs. The only exception to this rule is the common line price cap rate element that is updated using a separations revenue requirement. For this element, rates were established prior to LNP deployment and can only be increased based upon exogenous cost adjustments approved by the Commission. No such adjustment has been authorized for LNP; thus, interstate rates reflect no separated LNP costs.

The LNP Cost Recovery Order indicated that the costs will not be subject to separations.<sup>27</sup> In keeping with the Commission's Order, Ameritech has proposed an

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<sup>27</sup> Under the exclusively federal number portability cost recovery mechanism, incumbent LECs' number portability costs will not be subject to jurisdictional separations. Instead, we will allow incumbent LECs to recover their costs to requirements we establish in this *Third Report and Order*. Third Report and Order CC Docket 95-116, paragraph 29.

easily understood and administratively simple procedure that effectively removes the LNP costs from the separations process.<sup>28</sup> Under this procedure, Ameritech will capture the LNP revenues in unique revenue sub-accounts. The amounts recorded in these accounts will then be netted against the associated expense accounts prior to any jurisdictional allocation of the associated expenses. The resulting reduction to the net booked amounts as a result of reducing the expenses will ensure that the revenue requirement is correct (i.e., less LNP costs). Thus, the parties' "double-recovery" fears are groundless.

## **VI. CMRS INTERCONNECTION ISSUES**

Several parties argue that the LNP monthly charge should not be assessed to commercial mobile radio service ("CMRS") providers who purchase "Type 1" trunks for purposes of interconnecting with Ameritech's network facilities.<sup>29</sup> To the contrary, Ameritech's application of the SPNP Monthly Charge to Type 1 DID/DOD Trunks is reasonable, and treats such providers in parity with all others that use end office services with telephone numbers and call origination capabilities.

While AT&T and Arch argue that Type 1 service does not fit into the "class" of customers that should be assessed the monthly charge, they fail to address the more relevant issue: CMRS providers purchasing Type 1 service utilize the LNP investment, technology and architecture in the same manner as all other customers. Clearly, since such carriers have the ability to port numbers between LECs, and utilize the incumbent

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<sup>28</sup> This procedure is outlined in Ameritech's LNP Direct Case at section E, pp. 27-28.

<sup>29</sup> Arch Communications Group, at 2-3.

LEC's network to perform all necessary LNP functions for call routing and special features, Ameritech is justified in assessing the monthly charge to Type 1 DID/DOD trunks on a trunk equivalency basis as prescribed by the Commission.

In practice, CMRS providers are assigned blocks of telephone numbers by the ILECs for the DID portion of the Type 1 DID/DOD trunks which carry traffic from the ILECs' end offices to the CMRS providers' facilities. A CMRS provider served by such an arrangement is, of course, free to port these numbers to another carrier and thus, like all others who use DID trunks, receives the benefit of number portability technology. Furthermore, end user customers of such a CMRS provider also benefit from the ILEC's deployment of local number portability by gaining the opportunity to take along their assigned telephone numbers (i.e., the ones assigned to the CMRS provider's Type 1 DID/DOD trunk) when they switch to the services of other local telecommunications service providers.

A number of industry-wide committees have recently discussed the porting of telephone numbers assigned to Type 1 service to a CMRS provider's network. This activity cannot occur until the CMRS providers become number portability capable as ordered by the Commission<sup>30</sup>, but there is no reason why a CMRS provider cannot port these numbers to another wireline carrier under today's environment and rules. CMRS providers and their end user customers clearly benefit from this latter scenario.

Ameritech is not aware of any rules or regulatory requirements that do, or should, make

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<sup>30</sup> In the Matter of CTIA's Petition for Forbearance From CMRS Number Portability Obligations, in Docket No. 98-229, CC Docket No. 95-116, Memorandum Opinion & Order, FCC 99-19 (rel. February 9, 1999).



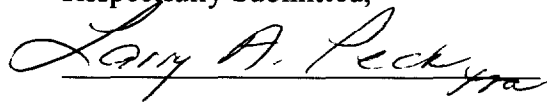
telephone numbers assigned to CMRS providers exempt from the charges associated with number portability or its applications.

Type 1 DID/DOD trunks are non-SS7 based services, and outgoing calls using these facilities are routed through ILECs' end offices, an arrangement that requires ILECs to query calls from those end offices on behalf of CMRS providers using them -- just as they do for any other DID/DOD exchange service. Each ILEC has the "N-1 carrier" responsibility to query such calls to number-portable exchanges. In addition, customers that place outgoing calls over CMRS providers' Type 1 DID/DOD trunks to reach special services (such as Operator Services and Directory Assistance) use the ILECs' LNP investment in those service platforms to gain information and complete calls. Ameritech's application of the monthly LNP charge is reasonable for this service because CMRS providers and their end user customers benefit from the incumbent ILECs' investment in number portability infrastructure just like any other end user customer of end office exchange-based LNP service.

## VII. CONCLUSION

For the foregoing reasons, the Commission should disregard the arguments posed in Oppositions to Ameritech's LNP tariff and that tariff should remain in effect, as filed.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Larry A. Peck".

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Date: April 29, 1999

# APPENDIX A

**Proper Recovery of Incremental Signaling System 7 (SS7)  
Costs For Local Number Portability**

**Rebuttal Comments**

**by  
Dr. Debra J. Aron**

**I. PURPOSE AND INTRODUCTION**

My name is Debra J. Aron. I am the same Debra J. Aron who filed a White Paper on behalf of Ameritech in the direct portion of this proceeding.

The purpose of this reply White Paper is to respond to several issues raised in the comments of AT&T and Ad Hoc Telecommunications Users Committee ("Ad Hoc") regarding Ameritech's recovery of SS7 investment-related costs for local number portability ("LNP"). AT&T and Ad Hoc chose not to respond to my initial White Paper demonstrating the appropriateness of using a long-run cost methodology, to rebut my explanation of why Ameritech's proposal does not result in double-recovery, or to even acknowledge my analyses. Although it appears they cannot refute my conclusions, I will show that the arguments they do present in their oppositions are superficial, confused, and lack any basis in economics, logic, or reality. In this paper, I explicitly respond to AT&T for the sake of convenience, but my comments apply equally to Ad Hoc's objections, wherever appropriate.

As a general matter, AT&T's and Ad Hoc's arguments are clearly self-serving. AT&T understands and supports the TSLRIC/TELRIC principles and models my initial White

Paper addressed. AT&T has consistently supported TSLRIC/TELRIC principles in other cases, such as state proceedings establishing the cost basis for pricing unbundled network elements. AT&T has adamantly advocated in those proceedings that TSLRIC/TELRIC principles and models must be consistently applied to *all* services and network functionalities, including SS7 network capabilities. For instance, in AT&T's arbitration hearings with Ameritech in Michigan, AT&T witness James Henson stated that "[f]or *local number portability*, TSLRIC costs for both interim and permanent solutions should be recovered in a competitively neutral manner from all providers."<sup>1</sup> (emphasis in original) He further stated that the TSLRIC methodology is an "economically sound" methodology wherein "virtually all costs are variable and are included in the cost calculation (including costs that are 'fixed' in the short run)."<sup>2</sup>

AT&T's advocacy of TELRIC and TSLRIC has continued to the present. In Ameritech's current biennial cost review proceeding in Michigan, AT&T witness Dr. Lee Selwyn<sup>3</sup> stated that TELRIC and TSLRIC "appropriately capture[s] the true economic cost" of interconnection and unbundled network elements.<sup>4</sup> The remainder of his affidavit scrutinizes Ameritech's non-recurring cost study and presents an AT&T study that, he

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<sup>1</sup> Michigan Public Service Commission, Case No. U-11151, *Direct Testimony of James F. Henson on Behalf of AT&T Communications of Michigan, Inc.* ("Henson Arbitration Testimony"), p. 5. Mr. Henson also advocates in this testimony that prices for UNEs, mutual compensation, collocation, and access to rights-of-way, conduits and poles should be set at TSLRIC. (p. 4) In fact, he argues that "competitive parity can be achieved only when prices for mutual compensation are set at TSLRIC levels." (p. 25)

<sup>2</sup> *Henson Arbitration Testimony*, p. 14.

<sup>3</sup> Dr. Selwyn is also retained by Ad Hoc in this proceeding. He signed a proprietary agreement from Ameritech on behalf of Ad Hoc, which allows him to review confidential materials supplied by Ameritech.

<sup>4</sup> Michigan Public Service Commission, Case No. U-11831, *Opening Affidavit of Lee L. Selwyn on Behalf of AT&T Communications of Michigan, Inc.*, April 1, 1999, p. 4.

argues, more closely conforms to the Michigan Commission's TSLRIC costing principles. AT&T argues in that same case that switched access prices should be set at TSLRIC plus an allocation of shared and common costs.<sup>5</sup> Further, the HAI Model, Release 5.0a ("Hatfield Model"), which claims to estimate the costs of basic local telephone service, unbundled network elements, carrier access and interconnection, "based on TSLRIC principles and [using] a consistent set of assumptions, procedures and input data," was developed by HAI Consulting at the request of AT&T and MCI.<sup>6</sup> Variants of the Hatfield Model, each of which purportedly has conformed with TELRIC / TSLRIC principles, have been supported by AT&T and MCI since the Commission's First Report and Order in CC Docket 96-98.<sup>7</sup>

Yet, in this case AT&T has abandoned its principles in its desire to seek a better deal. The records in state UNE proceedings are rife with comments by AT&T witnesses supporting the forward-looking, long-run, economic cost principles articulated in the First Report and Order. AT&T has included no such references in its opposition because the First Report and Order contradicts its short-run view in this case. In fact, AT&T has not pointed to even one other FCC or state Order or Rule that supports the interpretation of "incremental" it advocates in this case. Instead of arguing that TSLRIC is not the proper economic approach or, alternatively, that Ameritech has inappropriately applied TSLRIC

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<sup>5</sup> Michigan Public Service Commission, Case No. U-11831, *Opening Affidavit of Cathleen M. Conway on Behalf of AT&T Communications of Michigan, Inc.*, April 1, 1999, p. 17.

<sup>6</sup> Documentation to HAI Model, Version 5.0a, § 1.1, available at <http://www.hainc.com/hmdescr.pdf>.

<sup>7</sup> Documentation of HAI Model, Version 5.0a, Appendix A, available at <http://www.hainc.com/hmappA.pdf>.

or TELRIC principles, AT&T (like Ad Hoc) bases its comments in this case on very narrow legalistic interpretations of the LNP Cost Classification Order. I must assume that AT&T, based on the record surrounding TSLRIC and TELRIC it has built in other proceedings, knows that implementation of its narrow short-run view of the Order would prevent Ameritech from recovering the actual long-run, forward-looking economic costs it will incur in the provision of LNP. AT&T's and Ad Hoc's comments in this case should be seen for what they are – self-serving attempts to exploit the lack of definition attached to the term “incremental” in this single proceeding, and save themselves a substantial sum of money.

## **II. AMERITECH'S STUDY DOES NOT DOUBLE-RECOVER SS7 COSTS**

While ignoring my explanations to the contrary, AT&T still claims that Ameritech's cost model results in double-recovery. AT&T's claim of double-recovery is based on the false premise that “many of [Ameritech's] claimed costs do not vary with the level of octets processed. Therefore, these fixed/joint investments made prior to implementation of LNP are embedded costs, and if included as incremental LNP costs, would result in double recovery.”<sup>8</sup> Ad Hoc similarly complains that CCSCIS and SCIS incorrectly incorporate embedded or historical costs, and inappropriately incorporate “normal expenditures related to modernizing and upgrading [ILECs'] networks.”<sup>9</sup> Although my

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<sup>8</sup> Federal Communications Commission, CC Docket No. 99-35, *AT&T Corp. Opposition to Direct Cases*, April 19, 1999 (“*AT&T Comments*”), p. 13.

<sup>9</sup> Federal Communications Commission, CC Docket No. 99-35, *Ad Hoc Telecommunications Users Committee's Opposition to Direct Cases*, April 19, 1999 (“*Ad Hoc Comments*”), p. 33

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response directly addresses AT&T, it is equally applicable to similar arguments made by Ad Hoc.

AT&T's short passage contains many fatal logical errors. First, AT&T's statement that "many" of Ameritech's SS7 costs do not vary as a function of the amount of octet traffic handled by the network is false. As a matter of fact, almost 90% of the LNP SS7-related costs identified in Appendix B of Ameritech's Direct Case are costs that vary with octet volume.

Second, as I explained at length in my initial White Paper, and which AT&T chooses to ignore rather than rebut, all capacity costs are variable in the long run where two conditions hold: 1) future growth for the services that use the capacity must ultimately exceed the existing capacity, and 2) the changes in demand must be sustained. Both of those conditions apply here. AT&T makes no attempt to factually rebut either of these conditions. Indeed, Mr. Henson himself argued in the testimony quoted earlier that "virtually" all costs are variable in the long run. Nevertheless, AT&T's simple-minded claim improperly treats SS7 costs as a very short-run phenomenon.

In my White Paper, I provided an example of capacity costs based on the municipal bus system of Evanston, Illinois. The point of the example was to show that, although a permanent 5% increase in student ridership might not cause the bus system to add additional capacity in the short run, in the longer run the permanent increase in student



demand (coupled with normal demand growth) would ultimately cause the city to purchase additional buses sooner than it otherwise would have. Asserting that capacity costs do not vary with the level of octets is like asserting that Evanston incurs no additional costs if the demand for bus service increases significantly. It is simply not true: even if there are enough empty seats on the bus today to absorb the additional demand in the short run, the additional *sustained* demand on the bus system will induce the city to purchase additional buses sooner. This is a real cost, caused and *incurred today*, even though the associated expenditure is made at some time in the future.

The third error in the AT&T passage quoted above is the utter non sequitur beginning with "Therefore, these fixed/joint investments made prior to implementation of LNP are embedded costs..." AT&T has confused the concept of fixed costs with the concept of embedded costs. The two cost types are distinct and independent of one another. A cost can be embedded and not fixed; and a cost can be fixed and not embedded. The historical cost of analog switch line cards is an example of an embedded volume-sensitive cost, while the current cost for preparing documentation of methods and procedures for a new telecommunications service is an example of a fixed cost that is not embedded. An "embedded cost" is one that was incurred in the past and, generally, refers to a sunk cost.<sup>10</sup> AT&T's logic, which states that if a cost is fixed it is therefore embedded, is a convenient segue but is entirely without merit. Hence, even if AT&T had established that

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<sup>10</sup> A "joint cost" is one that is not incremental to either of two (or more) services but is incremental to the pair of them. A joint cost can also be embedded or forward-looking.

capacity costs are fixed, not variable, (which it did not), it does not follow that these costs are embedded and not recoverable as forward-looking incremental costs of LNP.

The fourth error in AT&T's statement is that, contrary to AT&T's claim, Ameritech's estimated costs are not embedded costs. Presumably, AT&T could not rebut my explanation of how Ameritech's SCIS and CCSCIS models calculate costs based on a forward-looking network architecture and costs, rather than actual, embedded equipment and facilities. Hence, AT&T could only resort to a convoluted non sequitur accusing Ameritech of estimating embedded costs. The fact is that SCIS and CCSCIS are forward-looking cost models and do not take into account the actual network or sunk costs. They do not estimate embedded costs.

The punch line to AT&T's house-of-cards argument is that Ameritech's cost estimates result in double-recovery. The double-recovery argument is wrong for three reasons. First, AT&T intentionally or unintentionally confuses the determination of costs and the recovery of costs. As I explained in my earlier paper, there is no double-counting of costs in the SCIS/CCSCIS models since local service is only assigned its pro-rata share of costs based upon the capacity it uses. AT&T does not refute this. It rather attempts to confuse the issue by bringing up the recovery of costs of other services. This proceeding involves the determination and recovery of costs for LNP. The costs of other services are irrelevant.

The second flaw in AT&T's double-recovery argument is that it is based on an incorrect understanding of costs. AT&T's implicit argument (which it does not make explicit, presumably because the argument cannot withstand scrutiny) is as follows: if capacity costs \$100, and you sell 100 units of service "A," the per-unit cost is \$1. Now suppose you add another service, "B," that uses the same facilities and which also has an output of 100 units. AT&T would say that the per-unit costs have fallen to \$.50 for each unit of both A and B. Moreover, its argument apparently would be that if you now charge \$.50 for each of the 100 units of B (in addition to \$1 for each unit of A), you would be double-recovering because you would earn \$150 in revenue on \$100 in cost. Only if you adjusted the price on service A to \$.50 would there be no "double-recovery."

There are several problems with this argument. First, whether or not you adjust the price of A is irrelevant to the incremental cost of B. The cost of B is what it is – the incremental cost of B alone – and the Order and the Act do not permit the cost to be dependent on the return in other services. The other problem is that the calculation itself is superficially appealing but wrong. What it ignores is the fact that adding another 100 units of demand increases the amount of capacity required in the long run. Indeed, in the long run, if you double the demand on the capacity, you approximately double the necessary capacity. This is true mathematically, whether you use the "marginal" or "average" calculation in SCIS/CCSCIS; the difference between the marginal and average

is simply the amount of capacity needed for a given level of demand.<sup>11</sup> Hence, in our example, if you add service B, the long-run incremental cost will turn out to be \$1 for each unit of B and each unit of A. This does not induce double-recovery because the additional revenue just accounts for the cost of the additional capacity required in the long run.

The example is highly simplified because it assumes that there are no costs unique to service B and that all costs are capacity costs; but the point is that AT&T's analysis is short-run and incorrectly treats capacity costs as fixed. Under AT&T's logic, all network usage from new customers subscribing to basic telephone service this month should be free because the capacity is already there and allegedly is being recovered from existing customers; otherwise, every time a new customer signs up for service, everyone's rates should go down. Obviously this would be very cumbersome, but that is not the reason that it is not done; it is not done because it is wrong. Every additional customer's use of the network causes costs in the long run, and every minute of use by every customer contributes equally to the eventual exhaust of the capacity; and adding another customer makes costs go up by an amount that is roughly linear in the usage on the network, according to the models that are generally used and accepted.

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<sup>11</sup> This is demonstrated by Telcordia Technologies' (formerly Bellcore) papers and documentation attached to SBC's filing in this docket. See Federal Communications Commission, CC Docket No. 99-35, *Direct Case of Southwestern Bell Telephone Company*, April 5, 1999, Attachment D ("Telcordia Attachment").

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Third, AT&T's conclusion is misleading because recovery of costs for non-LNP services is irrelevant to this docket. The purpose of this proceeding is to establish the incremental costs of local number portability. The price of LNP services is to be equal to this incremental cost estimate. Ameritech's other prices are entirely irrelevant. If, for example, Ameritech were earning a 500% return on basic local service (which, obviously, it is not) it would "recover" its costs of local services plus the costs of many other services in its basic local service prices; that would, nevertheless, have no impact on the incremental cost of LNP and what the proper rates would therefore be under the Commission order. Indeed, if Ameritech's earnings in other services *were* deemed to be relevant to the price of LNP, this would amount to mandated cross-subsidization of LNP from other services. Similarly, if Ameritech were taking a loss on other services, this would not justify increasing the price of LNP above its incremental cost. The price of LNP should reflect its own long-run incremental cost, nothing more and nothing less; Ameritech's other prices are irrelevant.

Taking AT&T's double-recovery arguments to their logical extreme produces some ridiculous scenarios. For example, according to AT&T's logic, as long as Ameritech is recovering its costs and currently has the capacity in its network to handle the additional usage of a new customer moving to Evanston from, say, Arkansas, the new customer is entitled to a free ride. On the other hand, if the arrival of the new customer triggers some capacity expansion in the Evanston local switch, the costs of which were somehow not considered in the average rates paid by other customers, then according to AT&T, the

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new arrival from Arkansas would be required to reimburse Ameritech for all of the costs of adding capacity to the Evanston switch. This is clearly an irrational and unreasonable scheme that would be adopted by no rational bus company or regulator. By the same token, it should not be imposed on Ameritech now.

As a customer of AT&T, I would like to be the beneficiary of the same double-recovery arguments that AT&T advocates in this proceeding. For example, I would like to be able to enter an AT&T retail outlet and take a pre-paid long distance phone card off the shelf and walk out without paying. Should I be stopped by store security, and should they be insensitive enough to demand payment, I need only explain that I believe AT&T's network already has enough capacity to provide the amount of service specified by the card. I should also say that I am already an AT&T customer. I have two telephone lines presubscribed to AT&T for long distance calling. I have a cellular phone presubscribed to AT&T for long distance calling. I have an AT&T calling card that I use to charge AT&T operator services, and I urge my children to use 1-800-CALLATT to call collect in emergencies. It is reasonable to assume that the rates I paid for those services cover the TSLRICs of those services, and that the contribution in those rates more than covers the costs of these services, plus the phone card I just took off the shelf. In addition, AT&T has other revenues and contribution sources and is profitable and covering all of its corporate costs, including the phone card I don't want to pay for. Therefore, continuing to use AT&T's argument, if I am forced to pay for the phone card, I should at least be entitled to an offsetting reduction in the rates I pay for the other AT&T services I

use. I do not think the Commission should find this logic any more compelling than would AT&T's store security.

### **III. AMERITECH'S MODELS PROPERLY ESTIMATE INCREMENTAL COSTS**

AT&T's discussion of "marginal," "average," and "incremental" costs (p. 14) also plays semantic games. As I clearly explained in my first White Paper, Ameritech's methodology estimates *incremental* costs. I discussed which option on the SCIS/CCSCIS model is the best method of properly estimating incremental costs. As I explained, there is no option in the SCIS/CCSCIS models called "incremental," but there are runs called "marginal" and "average." They have different mathematical derivations based on capacity cost discounted present value calculations.<sup>12</sup> They are both "incremental" under different factual scenarios about capital longevity and capacity utilization. I explained why the mathematical assumptions underlying the marginal calculation are unrealistic in this case, as is easily verified by examination of the Telcordia documents attached to the direct case of SBC. The "average" calculation is a more accurate estimate of the incremental cost under the technological conditions applicable here. Ameritech used the "average" option because it best estimates forward-looking incremental costs in the long run, not because Ameritech rejected the incremental cost approach, as AT&T alleges.

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<sup>12</sup> See *Telcordia Attachment*.

CERTIFICATE OF SERVICE

I, Edith Smith, do hereby certify that a copy of Ameritech's Rebuttal has been served on the parties listed on the attached service list, via first class mail, postage prepaid on this 29th day of April, 1999.

By: Edith Smith  
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